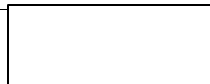


blue shield of california  
update on  
exclusive provider organization  
and direct contract counties

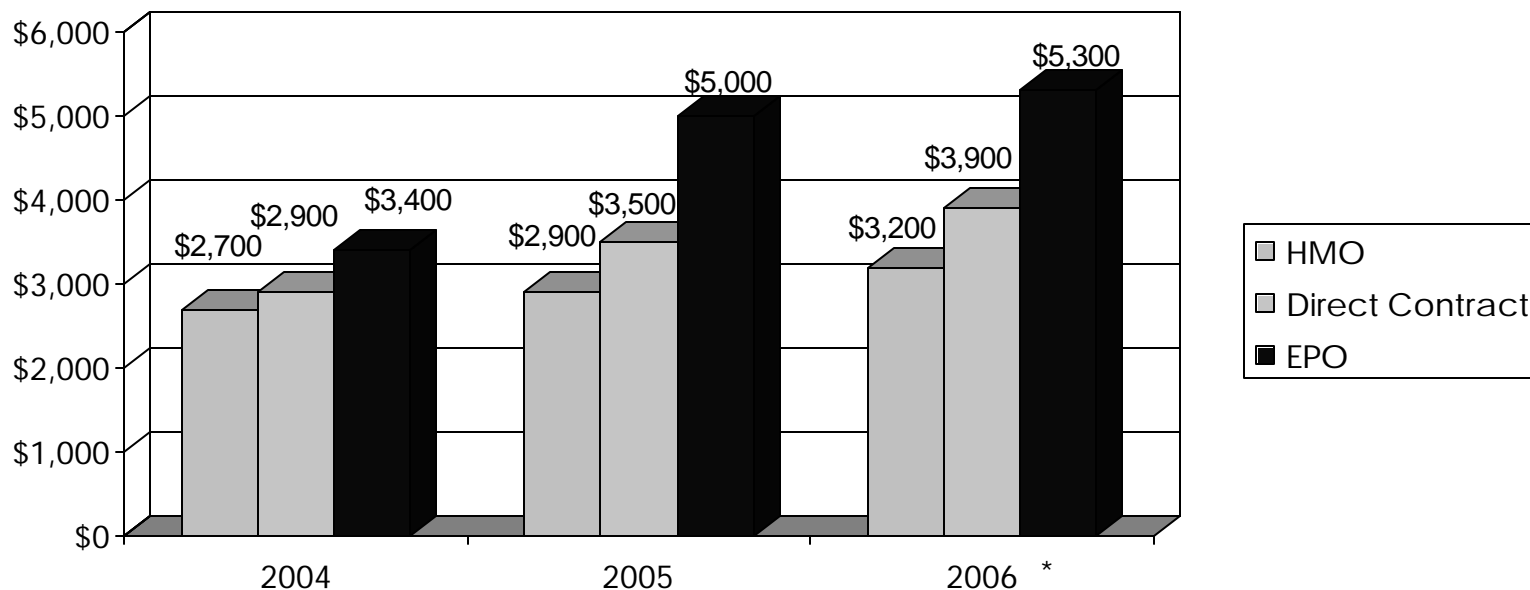
April 17, 2007



# background perspective

# the issue: status quo in direct contract and epo counties is not sustainable

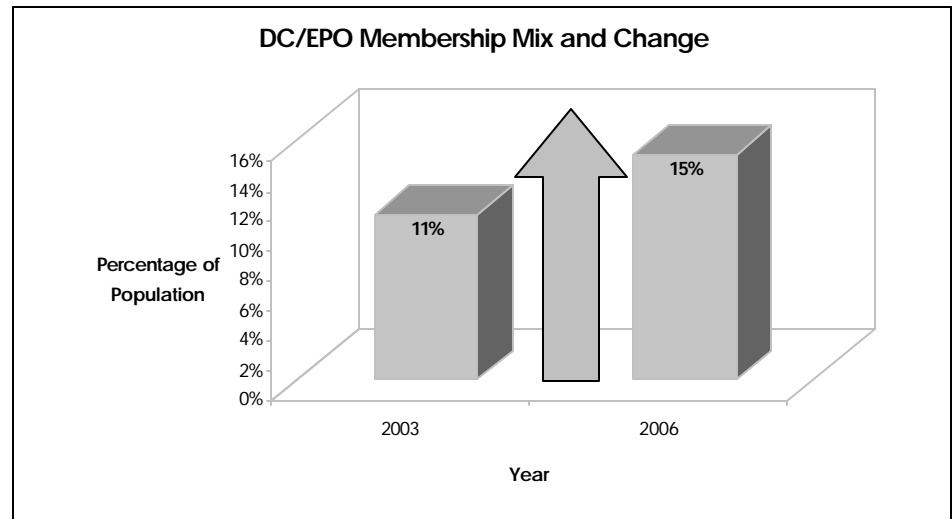
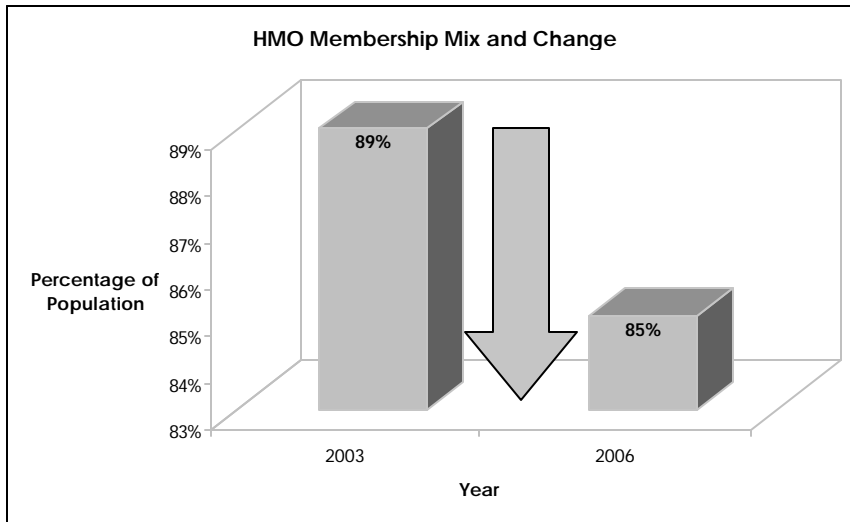
## Health Care Costs



*\*Updated claims paid through November 2006*

# the issue: higher costs compounded by unfavorable membership trend

The mix of CalPERS Blue Shield enrollees between HMO and DC/EPO counties is compounding the impact on premiums due to the shift in higher cost DC/EPO enrollees

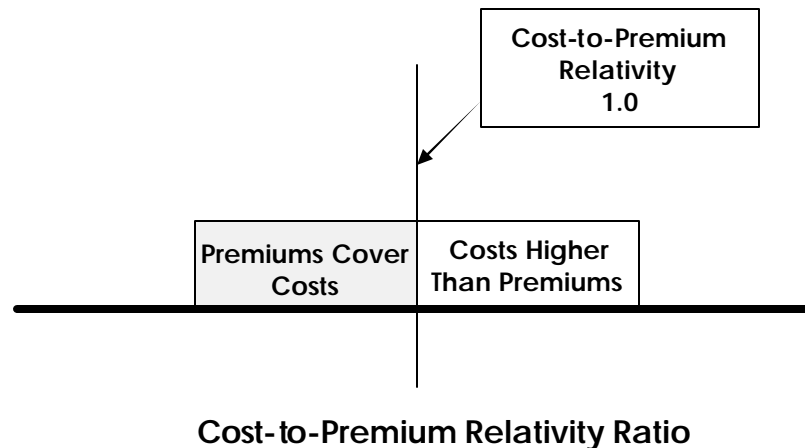


# analysis and recommendation

# analysis overview

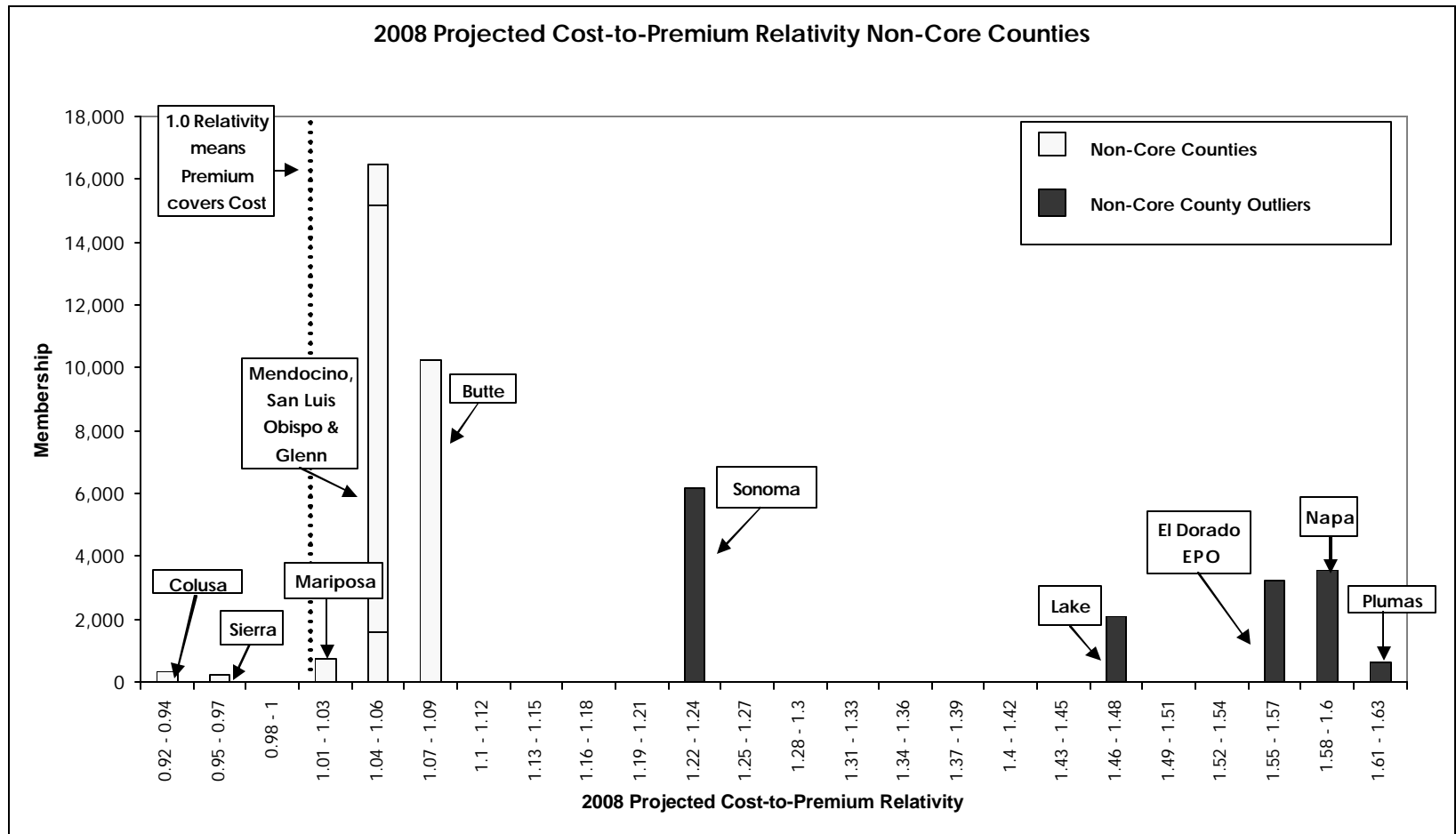
## Analysis:

- Blue Shield examined the costs relative to the revenue for each county, similar to pricing each county on a stand-alone basis
- Blue Shield created a **cost-to-premium relativity ratio** (similar to a medical loss ratio) that measures the amount of premium required to cover costs in a county versus the average actual amount of premium paid per member in that county



- A **cost-to-premium relativity greater than 1.0** means that **members in that county are not paying a sufficient level of premium** therefore their costs are subsidized by premiums from members in other counties.

# cost-to-premium relativities: five of the non-core counties are significant outliers

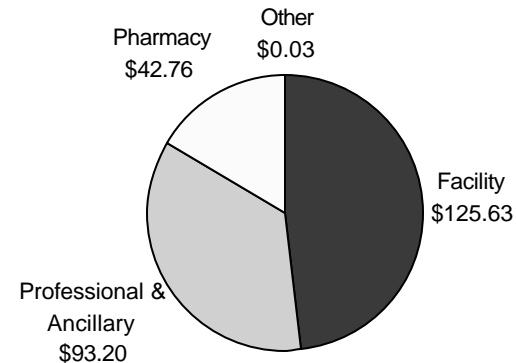
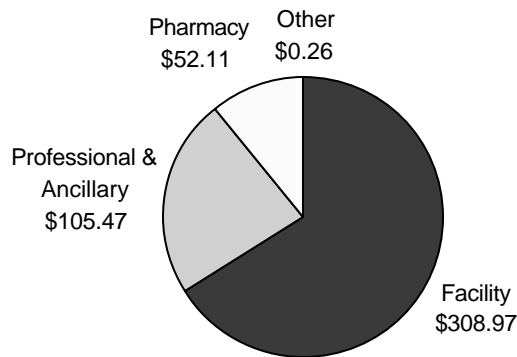


Note: Analysis based on 2006 data and projects costs and premiums into 2008

# the four highest non-core counties total COHC exceed the CalPERS statewide COHC by 78%

4 Non-Core Counties Total COHC ~ \$466.81 PMPM

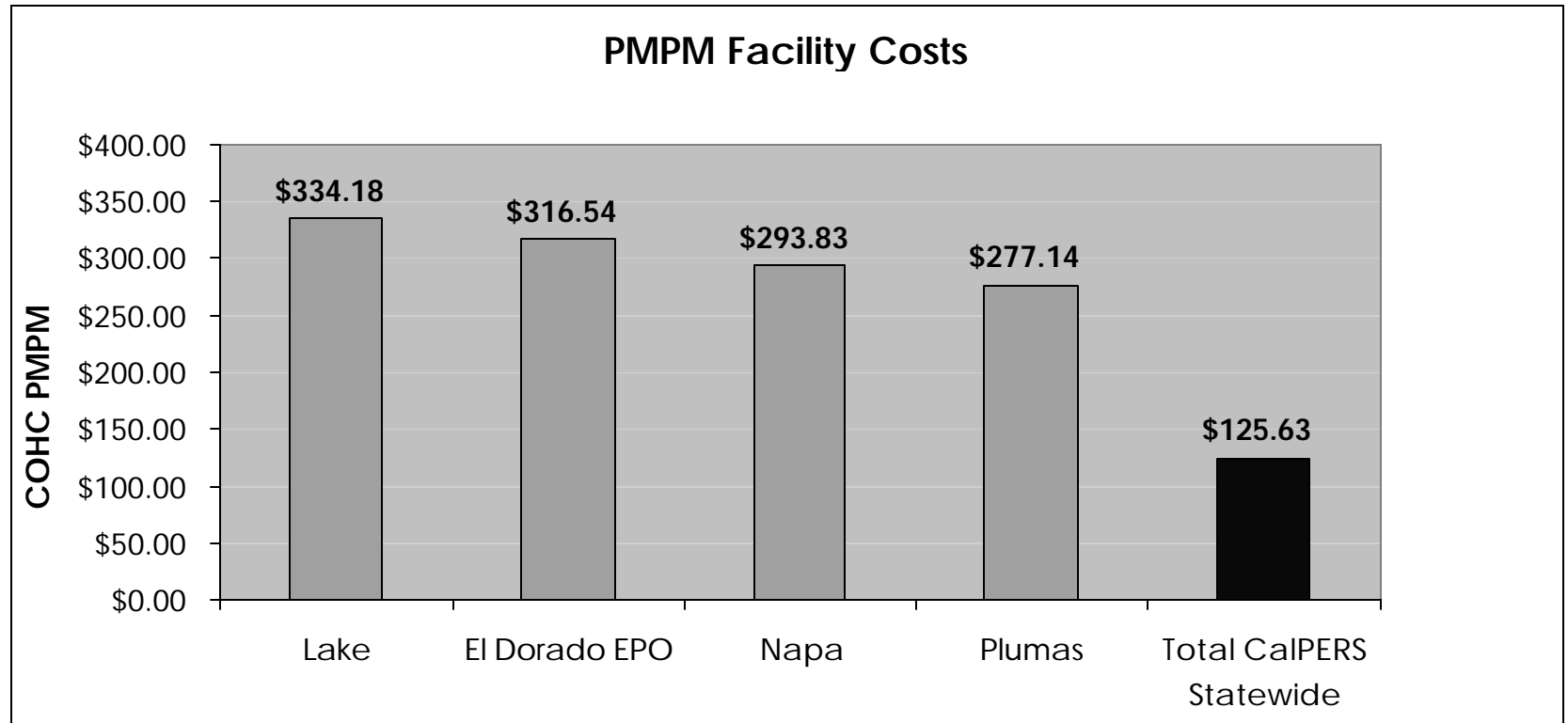
CalPERS Statewide Total COHC ~ \$261.62 PMPM



- The four non-core counties are Napa, El Dorado EPO, Plumas, and Lake
- Claims incurred 10/05 – 09/06, paid through 12/31/06, excludes Medicare and COB claims



facility costs are the primary driver of the cost difference, exceeding the statewide average facility costs by as much as 165%



# options and recommendation

# overview of options

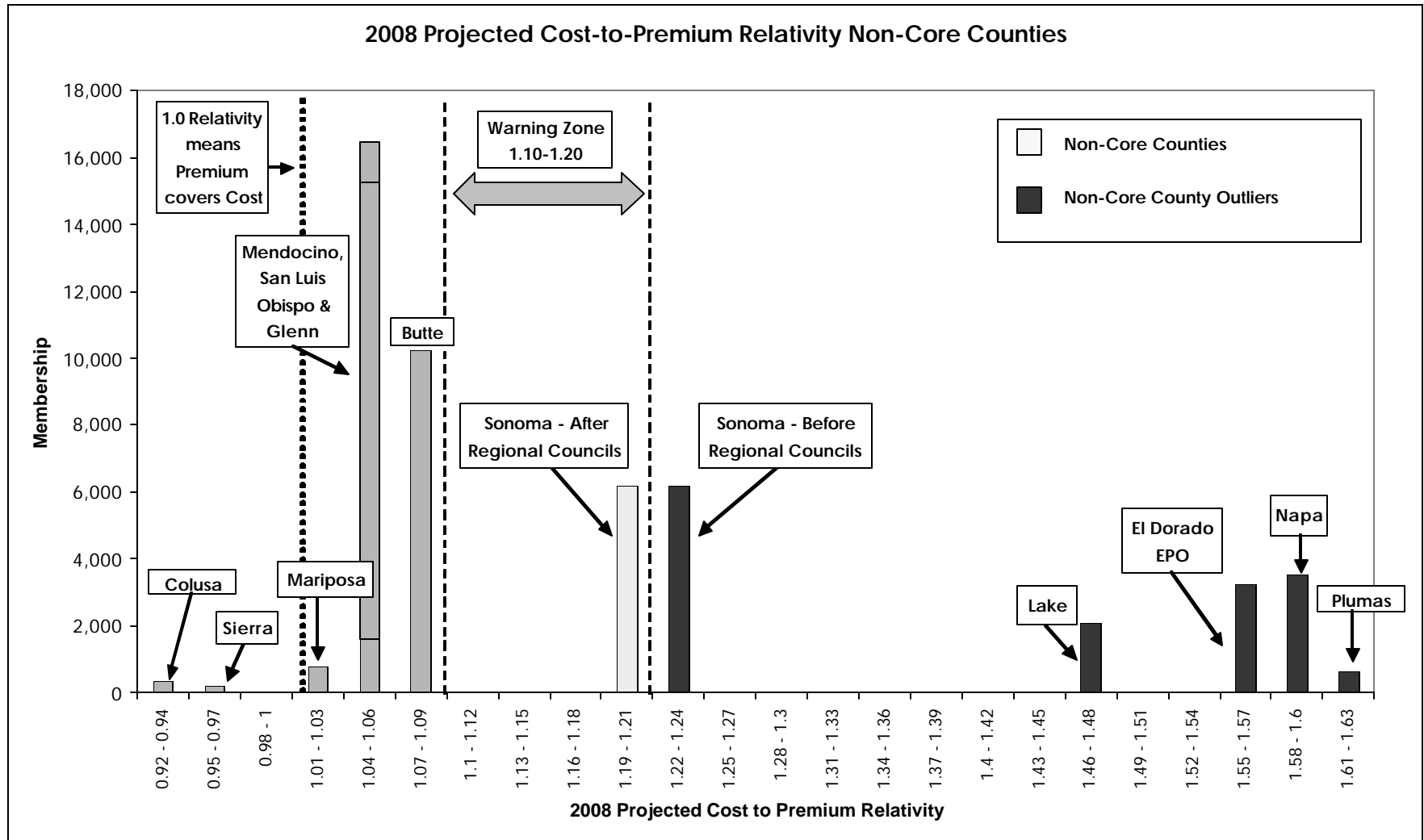
To address the ongoing high cost issue in the non-core counties, Blue Shield analyzed four options:

Options Considered	Recommendation
1. Discontinue coverage in some or all of the high cost counties	Yes, the highest cost four counties
2. Allow regional pricing factors to more accurately reflect actual costs for public agencies	Will consider during rate negotiations
3. Implement a different benefit design in some or all of the high cost counties	No, due to risk selection concerns and no rural subsidy available
4. Develop a program that allows all the CalPERS health plans to share in the high costs of these specific counties	No, due to PEHMCA regulation concerns

# 2008 county exit recommendation

- Set county exit threshold at 1.20 cost-to-premium relativity
- Create “Warning Zone” of 1.10 to 1.20 and place counties in this zone on watch for next year
- **Exit four counties: El Dorado EPO, Lake, Napa and Plumas counties**
- Sonoma Regional Council COHC initiatives estimated to improve cost-to-premium relativity in Sonoma to less than 1.20
- Monitor Sonoma for 2009
- Continue with Regional Councils in other non-core counties to improve performance

# recommended county exit



Note: Analysis based on 2006 data and projects costs and premiums into 2008

# Impact of county exit on CalPERS Blue Shield membership & premiums

**County exit impacts would improve premiums by 2%, or about \$30 mil, for the remaining ~356,000 basic members**

Impact of 4 County Exit			
	Basic		Total
	State	Public <sup>1</sup>	
Member Disruption <sup>2</sup>	3,622	4,884	8,506
Impact to Rate Increase	-2.2%	-1.7%	-2.0%
Impact to Single Party Premium (Per Month)	(\$8.56)	(\$7.50)	N/A

Note: 1 – Refers to Public Agency Region 1 values

2 – Based on Active and Retiree enrollments as of March 2007

# impact on county exit members

Lake and Plumas would qualify for Rural Subsidy. As a result:

- **State Basic Active members** would likely pay less in monthly premium for the PPO PERS Choice option than they are currently paying for the Blue Shield premium and would receive up to \$1,500 per employee for co-insurance and deductible expenses
- **State Basic Retiree members** would likely receive up to \$500 per employee for co-insurance and deductible expenses
- **State Medicare members** would likely be reimbursed for Medicare Part B premiums
- Though **Public Agency members** do not qualify for rural subsidy, they would likely also benefit from a lower premium upon movement to PERS Choice (based on 2007 rates)

Napa and El Dorado EPO would not qualify for the Rural Subsidy, however CalPERS currently offers alternative HMO products that would likely result in lower premium for the member

# service area impact

- **Even with the four county exit, Blue Shield would still provide more coverage in more non-core counties than any other HMO plan servicing California**
- Additionally, Blue Shield is adding Humboldt to its HMO service area, being the only health plan in California to offer CalPERS' members Humboldt HMO coverage.



# summary

- **Blue Shield recommends exiting the four highest cost non-core counties (El Dorado EPO, Lake, Napa and Plumas)**
- This county exit would improve overall competitiveness of the CalPERS HMO product
- The county exit would likely impact ~9,000 members in the exited counties, but would **favorably improve the premiums of the remaining ~356,000 members by 2% or about \$30 million**
- Impacted State members in the exited counties would be able to select a lower cost PERS Choice/rural subsidy premium or an alternative HMO premium, depending on the county
- Even with the four county exit, Blue Shield would still provide more coverage in more non-core counties than any other HMO plan servicing California